



## **ANNUAL LEGISLATIVE REPORT**

**March 1, 2006**

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## Vice President's Message

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This past year has resulted in a new assessment and restructuring of the Michigan Broadband Development Authority's (MBDA's) goals and mission. Within the next year the MBDA will cease its lending activities. These changes are detailed in the following pages. However, to understand the context of these changes, it is important for readers of this report to understand the complete history of the MBDA.

The idea for the creation of the MBDA grew out of a report issued by the Michigan Economic Development Corporation (MEDC) in 2001 called "LinkMichigan." This report highlighted the fact that Michigan was falling behind other states and countries in terms of access to high-speed telecommunications infrastructure. It noted that our state had some natural disadvantages that needed to be overcome (i.e., peninsula state surrounded by water) to attract more broadband investment. This report called for changes to right-of-way permitting rules among other things to encourage such investment. Ultimately, as a package of broadband bills, the Legislature created the METRO Authority and the MBDA. The MBDA received a \$50 million loan from the Michigan State Housing Development Authority (MSHDA) to provide start-up resources. The MBDA issued its first loan in 2003 and has since approved \$27 million in loans to broadband providers across the state.

Unfortunately, as the Authority was launching, large telecommunications firms and cable companies were at that very same time experiencing the largest market value losses in their histories. They were shedding debt and not looking to take on new debt. Yet, under initial leadership at the MBDA, the Authority aggressively tried to market its loans to these companies. It built a large staff and sought to build a portfolio worth hundreds of millions of dollars. At the same time, the MBDA turned away many small broadband providers because it didn't think it could afford to process such small loans. In short, the MBDA's staff and loan processing capacity was built on a larger scale than what turned out to be necessary, because the latter types of borrowers were the only entities interested in the MBDA's loan programs.

In late 2003, the MBDA was moved from Ann Arbor to Lansing and the Governor brought me on board to lead the agency. We worked to reduce administrative costs and refocused the MBDA's efforts toward small entrepreneurial providers. Since that time, the MBDA has approved more than a dozen loans for more than \$27 million. Loans to these providers are now helping to deploy cutting edge technologies across the state, impacting more than 300 cities, townships and villages. While the size of the MBDA's loan portfolio seems modest in historical telecommunication investment terms, new broadband technologies are more cost-efficient and the MBDA's loans will leverage an impact on more than 2.4 million people and 900,000 households.

Contrary to what has been "reported" in some media outlets, all MBDA loans are performing (we have made no bad loans). The MBDA has worked directly with dozens of companies and consulted with roughly 40 local government organizations in Michigan to support broadband expansion efforts. The MBDA goes about its reviews like an

investor and does not simply “give” money away to fledgling start-ups. To the contrary, the MBDA has rejected nearly three times as many loan requests as it has approved-working diligently to ensure that borrowers have a business plan and the technological and financial sophistication to succeed.

Building on this success, in the fall of 2005 Governor Granholm asked the Authority to dedicate its remaining MSHDA resources for projects in the most underserved regions of the state. Department of Labor and Economic Growth (DLEG) Director David Hollister also worked with the Authority to further reduce administrative costs to conserve dollars for loans. Several MBDA staff members were placed in positions with MSHDA and other DLEG agencies. Staffing levels have been reduced to 5 employees allowing more resources to be targeted at rural markets. The Governor’s Rural Broadband Initiative was subsequently launched with an RFP that was released on November 30, 2005. \$17 million is being made available at a reduced interest rate (4 percent). Loan applications are due on February 28, 2006. Once these loans are disbursed, the MBDA will transition to an advocacy and consulting organization. We will continue to monitor and adjust existing loans as needed, but will no longer provide lending resources.

As an experiment in state government, much can be learned from the MBDA’s start-up experiences. These include the following:

1. Early on the MBDA spent too much time and money chasing large statewide deals with major telecommunications carriers, when smaller entrepreneurial companies were banging on MBDA’s doors with low-cost alternatives for many markets;
2. Lending entities like the MBDA need to spend more time communicating about successes and challenges to members of the State Legislature;
3. Like MSHDA and other start-up financing organizations, the MBDA really needed an upfront subsidy/grant start-up investment for administrative costs (even though the MBDA had begun to build a loan portfolio that was covering costs);
4. The MBDA statute should have allowed equity positions (the MBDA functions much like a venture capital firm and its deals require large amounts of review from technical and financial staff) so it could better cover its costs;
5. Aggregation strategies and other subsidies are needed to build profitable business plans for broadband investment in rural markets;
6. Generally, financing should not be provided to pure start-up broadband companies yet, regardless of size, target those who have been in the broadband market and/or have run a successful enterprise (as an ISP, data center host or some other I.T. business).

If the MBDA successfully loans out the rest of the \$17 million it has available as part of the Governor’s new Rural Broadband Initiative, its overall interest income revenues and loan fees are anticipated to exceed \$6 million. This means that on a cash basis, the MBDA will have expended roughly \$5 million more than it took in as a new start-up finance agency. As an experiment that has provided an infusion of new broadband technologies around the state, this is a tremendously positive return on investment for the

State. The MBDA has developed a positive national and global reputation having consulted with 18 states and two foreign governments looking to replicate Michigan's programs and to gain insight on the lessons learned from the MBDA experience.

The MBDA has attracted investments that have put Michigan on the cutting edge of broadband deployment. As the MBDA winds down its lending activities, it can look back proudly in knowing that it built a positive national reputation for our state—as a place where entrepreneurs in the broadband industry can more easily expand and invest in new technologies. Beyond lending, the MBDA has pushed the envelope in Michigan by communicating and advocating the need for expanding the availability of high-speed Internet services. It has championed the need for communities to have wireless/mobile options in addition to traditional broadband services. It has been an important component of the State's overall effort to expand the 21<sup>st</sup> Century infrastructure needed to be competitive in today's global marketplace.

## **MBDA Board of Directors**

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**Jay Rising, State Treasurer (Chair)**

**Bob Swanson, Department of Labor & Economic Growth Interim Director**

**James W. Butler III, Michigan Broadband Development Authority Vice President**

**Michael DeVos, Michigan State Housing Development Authority Executive Director**

**George Franklin (D), Franklin Public Affairs**

**Joel I. Ferguson (D), Ferguson Development LLC**

**Larry Leatherwood (D), Executive Consultant**

**Frida Waara (R), Videographer**

**Matthew E. McLogan (R), Grand Valley State University Vice President**

**Cindy Zerkowski (R), Macomb County Chief Information Officer**

## **Mission, Powers and Funding**

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The MBDA was created in 2002 by a near unanimous vote of both the House and Senate. Its legislatively-established mission is to help the state attract more private sector investment in high-speed Internet infrastructure and to increase demand for and utilization of broadband services. The Legislature also called for the MBDA to help improve competition and affordability of broadband services across the state. The Authority meets these objectives by offering financing to telecommunications companies and others needing assistance in expanding broadband infrastructure. Eligible projects might include expansion of fiber backbone networks, last-mile connectivity solutions (such as wireless, cable, digital subscriber line (DSL), BPL, satellite or other technologies), or network operations centers, for example.

The Authority is authorized to issue investment grade, taxable and tax-exempt bonds, the proceeds of which can be used to provide financing assistance to companies. In an effort to support the start-up of the MBDA, the Michigan State Housing Development Authority (MSHDA) provided a \$50 million line of credit to the MBDA. This note was initially designed to balloon in 20 years, providing the MBDA with sufficient time to build loan volume and generate revenues necessary to make repayment. In 2005, however, MSHDA proposed a restructuring that would allow them to receive payments immediately in exchange for the forgiveness of a portion of the original MBDA debt.

### **Summary of financial changes between MSHDA and the MBDA**

The MBDA had a \$50 million financing with MSHDA that was entered into in April of 2002. This financing was evidenced by an Investment Agreement and an associated bond. The original financing was altered in October of 2003 to recast it to operate like a line-of-credit arrangement. A further alteration of the financing was approved by the MBDA and MSHDA boards on November 16, 2005 and subsequently closed as of that date.

This new revision was made to accommodate a lower interest rate for future MBDA loans in rural markets and to accelerate payment of existing MBDA cash and revenues to MSHDA. Neither of the prior agreements called for the MBDA to make any principal payments to MSHDA for 20 years. Given MSHDA's desire to recoup a portion of these dollars more quickly and given the net present value of money, MSHDA chose to forgive any non-loan related debt in exchange for immediate payment from existing and future MBDA loan revenues. As a result, the Amended and Restated Investment Agreement restructures the financing, in pertinent part, as follows:

- It provides for the repayment and cancellation of the prior bond. This provision includes a pledge of property, which specifically includes borrower payments on existing loans, to MSHDA as security for the new bond. This provision further provides that the payment and irrevocable pledge shall be deemed to be a final accounting of the then-outstanding principal amount on the prior bond and accrued and unpaid interest thereon as of the closing date, with any difference being thereupon forgiven by MSHDA and extinguished. MSHDA anticipates that this amount will be roughly \$10 million.
- It provides for a new investment and bond. The amount of the new investment is in the principal amount of \$35,483,810.20. The investment is comprised of \$23,237,613 in funds to be held in an escrow fund, and \$12,246,197.20 of existing loans financed by MBDA with prior bond proceeds.
- It provides that MSHDA will accept directions from MBDA regarding the usage of escrow funds subject to the following limitations:
  - An amount not greater than \$4,992,613 shall be available to make advances on existing loans;
  - An amount not greater than \$17 million shall be available to make RFP rural and underserved loans;
  - An amount not greater than \$250,000 shall be available for the settlement of accounts payable and other accrued expenses;
  - An amount not greater than \$995,000 shall be available for the operating expenses of MBDA.
- It provides for the transfer of escrow funds back to MSHDA at the seventeen month calendar anniversary of the closing date, with certain exceptions.
- It provides that the rate of interest on the new bond and investment shall be 0% per annum.

The bond is characterized as a limited obligation of MBDA payable solely for the pledged property and also states that the **State is not liable** on this bond.



## MSHDA/MBDA FINANCING AGREEMENTS

### **2002 Agreement**

**Amount:** \$50 million

**Interest Rate:** 6%

**Payments:** No Principal payments for 20 years - \$300,000 Interest Payment Annually

**Administration Position:** Building a self-sustaining organization not a near-term priority.

### **2003 Agreement (Replacing 2002 Agreement)**

**Amount:** \$50 million "Line of Credit" (\$47 million returned to MSHDA)

**Interest Rate:** 6%

**Payments:** No Principal payments for 19 years - \$100,000 to \$300,000 varying Interest Payment Annually

**Administration Position:** MBDA will repay loan and work to become self-sustaining.

### **2005 Agreement (Replacing 2003 Agreement)**

**Total Amount:** \$35.5 million

**Interest Rate:** 0% (4% for Rural Broadband Initiative loans)

**Funds for Existing Loans Prior to 2005 Agreement:** Approx. \$18 million

**Funds Available for MBDA Lending:** \$17 million (dollars not committed within 17 months returned to MSHDA)

**Amount Returned to MSHDA in FY06:** \$2.1 million immediately plus \$200,000 per month in loan payments from MBDA borrowers

**Funds Available for MBDA Operations:** \$995,000 (dollars not spent within 17 months returned to MSHDA)

**Funds for Expenses Incurred Prior to 2005 Agreement:** \$250,000

**Payments:** All monthly loan payments from MBDA borrowers

**Administration Position:** Provides near-term resources for Housing Programs.

## **Broadband Authority Historical Accomplishments**

1. Since its inception, the MBDA has approved \$27 million in loans which are impacting more than 300 cities, townships and villages across the state. It has worked directly with more than two dozen companies and consulted with roughly 40 local government organizations in Michigan to support broadband expansion efforts.
2. While the size of the MBDA's loan portfolio seems modest in historical telecommunication investment terms, new broadband technologies are more cost-efficient and the MBDA's loans will leverage an impact on more than 2.4 million people and 900,000 households in the aforementioned 300 cities, townships and villages.
3. The MBDA has not had a lack of interest in its loan programs, having reviewed more than \$100 million in loan applications. It has been diligent in lending only to those companies that have solid business plans. It has received criticism for not generating loans more quickly, but has held to an important underpinning of only doing loans that meet strong financial underwriting criteria. The Authority has done this and the companies it has backed are successful and growing.
4. MBDA borrowers have generated roughly \$50 million in revenues in just a few short years and employ approximately 230 people. They continue to grow and expand.
5. In addition to its lending activities, the MBDA has also consulted and helped several companies receive federal RUS dollars or other monies for expansion. These include companies like LDMI, Agri-Valley Communications, Air Advantage, Casair and Merit Network among others. The combined revenue of these companies exceeds \$150 million annually and together they employ more than 500 people.
6. The MBDA has developed a positive national and global reputation having consulted with 18 states and two foreign governments looking to replicate Michigan's programs and to gain insight on the lessons learned from the MBDA experience. These include the States of Indiana, Illinois, Ohio, Wisconsin, Minnesota, Iowa, Nevada, Virginia, Arizona, North Carolina, West Virginia, Florida, Pennsylvania, Washington, Oregon, Texas, California and the District of Columbia. The MBDA has also been recognized by two prominent organizations. The Ash Institute for Democratic Governance at Harvard University's John F. Kennedy School of Government asked the MBDA to apply for its Innovation in American Government Award. The Pioneer Institute for Public Policy Research also recognized the MBDA and asked for a similar submission for their "Better Government" competition.
7. Within Michigan, the MBDA has consulted with Ottawa, Oakland, Washtenaw, Muskegon, Marquette, Kent and Genesee Counties. It has also worked with the cities of Detroit, Grand Rapids, Lansing, East Lansing, Ann Arbor, Flint, Jackson, Saginaw, Warren, Marquette, Coldwater, Quincy, Traverse City, Boyne City, Bay City, Ferndale, Royal Oak, Iron City, Kalamazoo, Battle Creek, Springfield, Port Huron, Marshall,

Ypsilanti, Highland Park, St. Joseph, Benton Harbor and Alpena—all of which are looking to expand wireless and other broadband options in their communities.

8. The MBDA has attracted investments that have put Michigan on the cutting edge of broadband deployment. MBDA loans have been used to attract innovative investments to the State. For example:

- (a) The MBDA is responsible for attracting the 5<sup>th</sup> commercial deployment of broadband over power line (BPL) technology in the U.S. with its loan to Lighthouse Broadband, Inc., in Grand Ledge.
- (b) Its two loans to SpeedNet have helped leverage what is the largest deployment of a commercial wireless network in the U.S. utilizing a “Wi-max” type of non-line of sight technology that will eventually provide super high-speed mobile broadband services across the state.
- (c) A loan to M-33 Access in Rose City has helped expand what is now the largest line of sight wireless network in the U.S. spanning a 10,000 square mile region in rural northeast Michigan.
- (d) The MBDA championed the use of CDBG grant dollars in combination with its loans to help expand broadband into low-income communities. As a result, Michigan is the first and only state in the nation to be allowed to pilot this effort. In Muskegon County, through a loan and grant to Lansing-based Arialink, Inc., this program will help bring broadband service to more than 3,300 low-income households. With this success, the Michigan model will very likely be replicated across the country in the future.

In summary, MBDA loans have expanded service into locations where few if any other broadband services existed and in markets where there was typically only one dominant carrier. In the latter markets, the MBDA has seen prices drop dramatically as a result of the competitive pressure created by its loans and the resulting expansion of broadband services. ACD.net, for example, has used MBDA loans to expand services in several dozen bedroom communities outside major metropolitan areas, from Lansing to Battle Creek, to Kalamazoo, Grand Rapids and Benton Harbor. In each instance, the incumbent carriers have matched or reduced pricing and have expanded their investments in those same areas. Quantifying the overall impact of this “multiplier” investment is difficult, but it is significant.

Beyond lending, the MBDA has pushed the envelope in Michigan by communicating and advocating the need for expanding the availability of high-speed Internet services. It has championed the need for communities to have wireless/mobile options in addition to traditional broadband services. It has been an important component of the State’s overall effort to expand the 21<sup>st</sup> Century infrastructure needed to be competitive in today’s global marketplace.

## **Rural Broadband Initiative Update**

On November 30<sup>th</sup> the MBDA released an RFP for the Governor's Rural Broadband Initiative. The MBDA will provide 4 percent loans to qualifying broadband providers willing to build in underserved markets with interest-only draw periods of up to 24 months. Over 100 individuals have registered and downloaded the RFP since its release. A vendor forum was held on January 11<sup>th</sup> with more than 50 people and 36 companies participating.

The Authority has also been working with the Michigan Townships Association and the Michigan Municipal League to help expand awareness about the program. Based on feedback received from providers and community leaders from around the state, we anticipate a strong response to the RFP. Applications are due February 28th.

In order to identify and validate underserved regions, providers responding to the RFP will need to obtain a letter from the regions highest elected local official(s) (mayor, township supervisor, county administrator, etc.) certifying that the areas included in their proposal are indeed underserved. Selection criteria will include: loan qualification and financial viability of applicant; level and magnitude of local public/private partnership; quality of service and technology proposed; cost effectiveness of project budget; total investment leveraged.

At least three of our current borrowers have indicated they will be submitting applications, totaling somewhere between \$7 and \$15 million. This combined with other interest expressed from around the state, makes us confident that demand will exceed the \$17 million available.

A number of questions about the program have been raised by potential borrowers. They include the following:

1. If we receive a loan from the MBDA through this program, would we also be able to apply to the Federal Government for grant money?

**Answer:** We don't believe there are any restrictions on the RUS grant program that would disqualify you if you received an MBDA loan. However, we would encourage you to visit their website at: [www.usda.gov/rus/telecom](http://www.usda.gov/rus/telecom) for further clarification. We understand that most broadband providers applying for RUS grants have some sort of bank or lender debt on their books.

2. What if the area my company wishes to expand into is not identified as a target area in Appendix A (Map) of the RFP? Can I still borrow MBDA funds for expansions in these areas?

**Answer:** The referenced map is for general guidance only. As explained in the following question, in order to qualify for a loan a provider must have a local

government official certify that the area they are proposing to invest in is “underserved,” meaning affordable broadband service is not widely available in the area.

3. To qualify for a Rural Broadband Initiative loan, providers must have a local government official certify that the area they are proposing to invest in is “underserved,” meaning affordable broadband service is not widely available in the area. How can a local government official assess whether or not broadband services are widely available in their community?

**Answer:** There is no “minimum percentage covered” test that needs to be met in order to determine that an area is underserved. If there are known areas of the region that do not have available access, officials may sign a certification. During the loan application approval process, the MBDA will review the “underserved” nature of the proposed investment areas from applicants. The Rural Broadband Initiative is a competitive program with no more than \$17 million being made available. Therefore, those areas that are judged as being the most “underserved” will rank higher in determining where funds will be distributed.

Given the desired partnerships and local participation desired (as explained in the RFP), a local certification process was determined to be the best starting point for qualifying an area as “underserved” for the loan program. By asking local leaders to deem their area in need, it is hoped that the Rural Broadband Initiative is more responsive and targeted to those areas needing the most assistance.

A broadband provider seeking an underserved certification from a local government should provide evidence to local officials that there is not an alternative broadband service that is widely available. Ultimately, however, an official should use his or her own best judgment, based on their familiarity with the community, as to the availability of services.

4. Do all local “underserved” certification forms need to be submitted by February 28<sup>th</sup> along with the full loan application in order for those areas to be eligible for financing?

**Answer:** The MBDA understands that there may be unforeseen delays in obtaining certifications in some regions that providers are targeting. Providers are encouraged to delineate all of their intended targets for expansion in their loan application, regardless of whether certifications have been obtained from each community or region. However, such certifications must be provided 30 days prior to the closing of a loan and lack of such information could impact consideration of the loan application during the competitive review process.

5. Must I attend the pre-bid workshop in order to submit an application?

**Answer:** No. Attendance is not required.

6. Will the materials I submit be kept confidential?

**Answer:** Yes, for information deemed proprietary. However, applicants must identify the specific information in their application that they wish to protect. The MBDA has an exemption from the State's Freedom of Information Act (FOIA) in order to protect such information. Section 3.4 of the RFP provides a confidentiality form that providers must fill out. In filling out this form, applicants should be specific as to what information within their application is deemed to be proprietary. Applicants should NOT simply indicate that they wish to protect the entire application. For example, we cannot protect the name of the company and other information that might be available through public sources. MBDA staff will contact you if there are any questions or issues about the information you wish to protect.

7. Does the MBDA anticipate extending the February 28<sup>th</sup> deadline for loan applications?

**Answer:** No. Given the limited availability of funds we expect the demand for financing to exceed the \$17 million that is available.

8. We are looking at purchasing another provider. When we apply for the RFP can we include the financing of the acquisition?

**Answer:** You may include this portion of your financing needs, but should be advised that given the competitive nature of the RBI, there may not be funds available for financing an acquisition of this nature. We may be able to provide financing for any broadband upgrades (if they qualify).

9. Do we have to provide service to the entire county in order to receive grant dollars referenced as being available in Marquette County?

**Answer:** It is possible that the county may consider applications that only provide service to portions of the county. However, ubiquitous service throughout the area is desired. Grant monies are only available for investments made in the five low to moderate-income communities targeted through this Digital Divide Investment Program.

10. Where do I find the list of companies that have already received financing from the MBDA?

**Answer:** Please visit our website at [www.broadbandauthority.org](http://www.broadbandauthority.org). Near the bottom of the MBDA homepage under RESOURCES you will find the link to a document titled MBDA Borrower Information.

11. We currently serve most of our county with wireless Internet access up to 384k. To bring speeds up to 1 Megabit (as specified in the RFP) would require major upgrade of our access points, which we could do with additional financing. Would this situation be considered "underserved"?

**Answer:** Potentially. However, given the competitive nature of this RFP, new expansion activities may receive priority consideration over upgrades of existing broadband systems. It should also be noted that the 1 megabit capacity threshold mentioned in the RFP is a goal not an absolute requirement.

12. Can projects extend over an area larger than a single county?

**Answer:** Yes. There are no geographic size limitations on proposals.

13. Are the Marquette DDIP Pilot grant monies part of the offering of the RFP?

**Answer:** Potentially. Page # 5, Section # 1.2.6 of the RFP provides information about the townships where assistance might be available. If you are interested in serving these areas, you should contact Andrew Bek in Marquette County at 906.228.4143

14. Considering the limited focus of this program and the significant demand that still exists, is it envisioned that additional such programs will follow or that more conventional MBDA funding assistance might be available in conjunction with this program?

**Answer:** No. The MBDA has been restructured and does not anticipate making new loans after the conclusion of this initiative.

15. In the past, the MBDA has tended to fund specific projects that solve more focused broadband availability problems. This program seems to change that direction in that it appears to encourage applications that are designed around more broad-ranging and multi-technology initiatives. Is this a correct assessment and how will applications representing more broad-reaching initiatives be received?

**Answer:** There is no one technology solution being advocated by the MBDA for this program. However, with only \$17 million available for this program the most cost-efficient delivery models may have a competitive advantage.

16. Must the application be submitted by a specific vendor or can it be more of a consortium as implicated by some of the stated objectives? How might this affect evaluation of the project by the MBDA?

**Answer:** A consortium of vendors may apply. Evaluation of each consortium vendor may vary depending on how the loan ends up being structured.

17. How were the underserved areas determined on the map?

**Answer:** See Page 5 of the RFP (Section 1.2.5)

18. Do you expect the local government offices to know if they have broadband?

**Answer:** See question and answer #3 above. Local officials are becoming more aware of such deficiencies in their communities.

19. How does the MBDA distinguish between “Underutilized” and “Underserved”?

**Answer:** As is noted above, the MBDA is relying on local official help in determining the nature of broadband usage in their area. Beyond stating that it means affordable broadband is not widely available, we have not set specific numerical standards for what is “underserved.” As a competitive program, however, we can and will make judgments as to the underserved nature of the area (s) where vendors are seeking financing. For example, an area that has no service provider whatsoever will clearly be deemed more underserved than an area that may simply have small pockets where no service is available. In other words, there are degrees of difference or characteristics of regions that will rank some areas as more underserved than others. If there is greater demand for dollars than is available through this program, the most underserved areas will be given a preference during the review process.

20. Can you suggest an efficient way to deal with the large number of township officials?

**Answer:** We encourage you to contact the Michigan Township Association (MTA) at 517.321.6467. You may also want to contact the Michigan Association of Counties at 800.258.1152.

21. Can there be multiple providers in one area?

**Answer:** Potentially, yes. An existing provider may only be serving a portion or portions of a region. If this situation exists for the region you wish to expand into and you are able to get local certification as to the underserved nature of the area, a loan may be available—depending on the availability of financing and competitive review process noted above.

22. What if our company has recently expanded into an already designated underserved area? Will the MBDA be willing to refinance the equipment we have already deployed in these areas?

**Answer:** Since refinancing is allowed under our statute, the MBDA will consider refinancing proposals. However, given the limited availability of funds refinancing proposals, alone, may not be ranked as a high priority during the



review process. It is suggested that any such request be part of an overall expansion plan that includes new underserved areas.

23. Will the MBDA loans be “revolving” in nature? That is, can we apply for a revolving loan that makes new dollars available as we pay down the loan?

**Answer:** No. The nature of the MBDA’s capital source will not allow such an arrangement. See pages 5-6 of the RFP for a description of expected loan terms.

24. What if an area is declared underserved now but isn’t underserved once the loan is made?

**Answer:** If the area is deemed as underserved at the time of application and/or loan closing, the area will be considered underserved.

25. I see you are requesting year end financials from the past three years. What do we do if we are a startup company?

**Answer:** You should submit the most recent set of financials available. If you only have one or two years of financials given the age of your company, please submit those. You may still be considered. However, the MBDA has not typically lent to startups unless they can demonstrate their ability to immediately generate cash flow, having contracts or purchase agreements in-hand showing business growth.

26. We understand there is an effort in the State Legislature to push a bill that would eliminate the MBDA. Will it impact this lending program?

**Answer:** The Michigan Broadband Development Authority has been receiving numerous phone calls from companies who are interested in responding to the Rural Broadband Initiative (RBI) Request for Proposals, but who are concerned about media reports that the Legislature may be attempting to abolish the MBDA and its programs.

We want to assure you that while there is some reason for concern, we are confident that the RBI will move forward and we will be allowed to lend the currently available \$17 million for this initiative.

If you choose to discuss this matter further with your local members of the Legislature, you may obtain their contact information at [http://house.michigan.gov/find\\_a\\_rep.asp](http://house.michigan.gov/find_a_rep.asp) and <http://www.senate.michigan.gov/findyoursenator/michiganfys.asp>.

27. What type of closing fees or costs will be attached to the loans that are issued by the MBDA under this program? Can any such costs be rolled into the loan amount?

**Answer:** The MBDA has, in the past, charged a 2 percent closing fee (1/4 point at time of commitment and 1 and 3/4 point at closing) as well as a onetime fee for legal expenses. While there may be a downward adjustment to these fees, for planning purposes applicants are advised that closing costs will not exceed 2 percent of the loan value. Further, please know that any such costs can, in fact, be rolled into the loan amount.

## **MBDA Portfolio Summary**

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Total number of counties at least partially impacted by approved loans: **46**

Total number of cities, townships and villages impacted by approved loans once networks are built and lit: **300**

Total dollar amount of approved projects: **\$27 M**

Total dollar amount of loans closed: **\$18 M**

Total dollar amount of loans anticipated in 2006: **\$17 M**

Total amount of loans closed when lending activities cease: **\$35 M**

## 2006 Outlook

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The MBDA has reduced its staffing levels to 5 employees and has recast its operations and future mission as noted above. Over the next year the MBDA will focus on the following:

- a. *Marketing the Rural Broadband Initiative RFP and managing underwriting processes when loan applications are received*
- b. *Managing the Digital Divide Investment (grant) Program which has pilot projects underway in Muskegon County, City of Springfield and Marquette County.*
- c. *Offering consulting services to rural communities in support of broadband expansion efforts in their regions*
- d. *Developing a series of survey tools to gauge broadband use and services across the state*
- e. *Promoting new technologies and expansion programs—attracting pilot projects and facilitating and seeking out collaborative grant making opportunities*
- f. *Monitoring loans and administering necessary meetings with the MBDA Board for approval of loans and modifications of existing lending agreements.*

In short, the MBDA will process all Rural Broadband Initiative loan applications and make recommendations to the MBDA Board of Directors for approval of such loans. As necessary, the MBDA will work with MSHDA staff to review applications and develop loan documents for the MBDA Board of Directors consideration.

We look forward to reporting to you throughout the year as we make progress in implementing the Rural Broadband Initiative.

For an electronic color copy of this report, along with other information about the Authority's activities, please visit our website: [www.broadbandauthority.org](http://www.broadbandauthority.org)